

CITY OF ALAMEDA

Memorandum

To: Honorable Mayor and
Members of the City Council

From: John A. Russo
City Manager

Date: December 20, 2011

Re: Adopt a Resolution Ratifying the Public Utility Board's Approval of the
Northern California Power Agency Market Purchase Program Agreement

BACKGROUND

At its November 21, 2011 meeting, the Public Utilities Board approved Alameda Municipal Power's (AMP) participation in the Northern California Power Agency (NCPA) Market Purchase Program Agreement (MPPA) and authorized the General Manager to execute the agreement contingent upon the City Council's ratification of its action. Since the term of this agreement is open ended and could possibly exceed 15 years, the agreement must be ratified by the City Council as required by City Charter Article XII, Sec. 12-2(A).

DISCUSSION

AMP anticipates the need to acquire additional amounts of power to meet the load requirements of the City of Alameda, especially beginning in 2015 after a 10-year contract expires. AMP will be exposed to the short-term market if anticipated shortfalls are not filled by the acquisition of firm resources. Excess exposure to the short-term market can result in unanticipated cost fluctuations and potential rate impacts due to the volatility of wholesale power market prices.

AMP is a member of NCPA. NCPA has developed a Market Purchase Program (MPP) that allows NCPA to purchase power on behalf of participating members for terms up to five years. AMP has evaluated membership in the MPP as a means for procuring, in a cost-effective and timely manner, additional resources to satisfy future supply deficiencies so that it can be less dependent on spot-market purchases.

Market Purchase Program

Effective participation in the power markets requires timely action as forward price curves change daily. The underlying power purchase agreements (PPAs) must already be in place with multiple parties prior to conducting a Request for Proposals (RFP) process to take advantage of pricing opportunities. The PPAs are complicated, technical, and require expert legal review to ensure the terms and provisions are current

and provide appropriate mitigation of counterparty risk. The MPP program instituted by NCPA employs skilled personnel, has developed appropriate underlying contracts which undergo regular legal review, and includes a risk management plan with the capability of performing risk evaluations in a timely manner to facilitate transactions. The cost of legal support as well as staff time needed to accomplish a similar effort in-house would be substantially higher than the cost of the NCPA MPP, which is shared by a number of participants. AMP staff recommends participation in the NCPA MPP to enable AMP to purchase power as needed, monitor the status of contract counterparties, and pool purchases with other NCPA MPP members to achieve lower overall costs for purchased power and to do so in a timely manner.

Summary of Key Revisions

- The program covers a term of five years that can be automatically extended by one year on an annual basis. Transactions are limited to five years in duration.
- Procurement of power will use an RFP process with a pre-qualified pool of marketers. For purchases of three months or less the Western States Power Pool (WSPP) agreement is used, and for purchases greater than three months the Edison Electric Institute (EEI) agreement is used. The underlying or base agreements with marketers are already in place.
- Procurement is through subscription. Each MPP member has the opportunity to participate in each solicitation, and to the extent the participant subscribes to a given transaction, they are assigned their pro-rata costs for the energy procured.
- Purchases must be undertaken in accordance with NCPA's energy risk management policy.
- Each participant pays a fixed cost of \$900 per month and is allocated other additional internal program costs, if any, on a variable basis. Excess collections during the budget settlements are refunded after the end of the year.
- To allow NCPA to respond to requests for credit assurance, funds equal to the highest three months of estimated commodity costs to be procured over the coming year must be deposited on behalf of each participant into an operating or security account. Any such posting by AMP is expected to be small.
- New participants must reimburse existing participants for a proportionate share of any MPP costs incurred to establish and administer the MPP program.
- Program participants are required to establish a revenue covenant, whereby they agree to establish and collect rates and charges for the services and commodities produced by its electric system sufficient to provide revenues adequate to meet its obligations under the MPPA.
- Default provisions have been established to protect non-defaulting members from the liability of the defaulting member.
- Termination provisions include the ability for NCPA or the participants to terminate or suspend the program, and cover the details for settling any outstanding program costs or liabilities. Withdrawal from the MPP requires two years advance notice and does not relieve the withdrawing party of any outstanding liabilities.

- The agreement provides for indemnification and hold harmless clauses between the program participants and NCPA and its members.

Trade Authorization

AMP staff intends to provide the Public Utilities Board a comprehensive report in the coming months and request authorization to allow the General Manager to enter into transactions with appropriate dollar amount limitations and other safeguards. In the interim, transactions under the MPP agreement must be approved by the Public Utilities Board.

FINANCIAL IMPACT

There is no financial impact on the General Fund.

The financial impact on AMP includes the initial payment to NCPA for the security reserve and the program start-up cost reimbursement. These up-front costs are estimated by NCPA to total \$8,500. The \$900 monthly charge totals \$10,800 per year. These costs are covered under AMP's power cost budget.

Financial risks associated with open power supply positions should be reduced by utilizing the MPP and its associated risk management procedures.

MUNICIPAL CODE/POLICY DOCUMENT CROSS REFERENCE

This action does not affect the Municipal Code.

ENVIRONMENTAL REVIEW

Since the subject electric power purchases are in-lieu of similar spot-market purchases, this activity would not result in either a direct physical change in the environment or a reasonably foreseeable indirect change in the environment, and is therefore not a "project" for purposes of Section 21065 of the California Environmental Quality Act.

RECOMMENDATION

Adopt a Resolution ratifying the Public Utilities Board's approval of the Northern California Power Agency Market Purchase Program agreement.

Respectfully submitted,



Girish Balachandran
General Manager

By:

A handwritten signature in black ink, appearing to read "Don Rushton", written over a horizontal line.

Don Rushton
Operations Manager

Exhibit:

1. NCPA Market Purchase Program Agreement – on file in the City Clerk's Office

cc: Public Utilities Board

CITY OF ALAMEDA RESOLUTION NO. _____

RATIFYING THE PUBLIC UTILITY BOARD'S APPROVAL OF THE NORTHERN CALIFORNIA POWER AGENCY MARKET PURCHASE PROGRAM

WHEREAS, Alameda Municipal Power (AMP) on occasion has the need to purchase additional electric energy and capacity to meet the electric power requirements of the City of Alameda; and

WHEREAS, maintenance of an adequate, cost effective supply of electric power is a matter of critical importance, directly affecting the public health, safety and welfare; and

WHEREAS, requests for proposal for the purchase of electric energy or capacity often require response within a very short time frame; and

WHEREAS, AMP is a member of the Northern California Power Agency (NCPA); and

WHEREAS, NCPA is willing to undertake the purchase of electric energy and capacity for its members for terms of up to 5 years pursuant to its Market Purchase Program Agreement (MPPA); and

WHEREAS, utilizing the MPPA, NCPA may enter into power purchase agreements for its participating members, which agreements are in the form of the Western Systems Power Pool Agreement or the Edison Electric Institute Master Power Purchase and Sale Agreement (as incorporated in the MPPA), with such modifications as have been made by the NCPA Commission or may be reasonably required to consummate a power purchase agreement; and

WHEREAS, the MPPA provides that, following the issuance of a request for proposals for power, the execution of a Participant Purchase Confirmation by the Designated Representative of a participating NCPA member will be deemed the subscription by that NCPA member for the purchase of power upon the terms negotiated; and

WHEREAS, the Public Utilities Board has reviewed and approved the MPPA at its November 21, 2011 meeting and recommends that the City Council ratify its action as required by City Charter Section 12-2(A).

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Alameda, that the Council ratifies the action of the Public Utilities Board, as follows:

Approved as to Form

General Counsel

1. The Market Purchase Program Agreement with NCPA is hereby approved, and the General Manager of Alameda Municipal Power is hereby authorized to execute it on behalf of Alameda Municipal Power.
2. The General Manager or designee is hereby designated as the Designated Representative for Alameda Municipal Power pursuant to the MPPA. Such Designated Representative is hereby authorized to execute Participant Purchase Confirmations for either or both electric energy and capacity, and to accede to or agree to amendments to either the Western States Power Purchase Agreement or the Edison Electric Institute Master Agreement with the advice of counsel, provided that such Participant Purchase Confirmations are entered into in conformance with the MPPA. The obligations entered into by such officers on behalf of Alameda Municipal Power shall be valid and binding, and the Public Utilities Board agrees to approve the payment of such obligations in accordance with the MPPA as fully and as if each such Participant Purchase Confirmation and transaction were directly presented to and individually approved by it.
3. The monetary limits associated with transactions under the MPPA and delegated to the General Manager are to be established via a separate resolution of the Public Utilities Board. Until such time authority to transact is delegated by the Public Utilities Board to the General Manager, no transactions may be undertaken under the MPPA without express consent of the Public Utilities Board.

* * * * *

I, the undersigned, hereby certify that the foregoing Resolution was duly and regularly adopted and passed by the Council of the City of Alameda in a regular meeting assembled on the 20th day of December, 2011, by the following vote to wit:

AYES

NOES:

ABSENT:

ABSTENTIONS:

IN WITNESS, WHEREOF, I have hereunto set my hand and affixed the seal of said City this 21st day of December, 2011.

Lara Weisiger, City Clerk
City of Alameda